

A row of empty black office chairs in a modern meeting room with large windows. The chairs are arranged in a line, facing away from the camera towards a large window that lets in bright light. The room has a contemporary design with a long table and a high ceiling.

Report to Board of Trustees

ALASKA MENTAL HEALTH TRUST AUTHORITY

Audit Planning:
Year Ending June 30, 2021

IBDO[®]

Contents

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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Trustees and Audit Committee) and, if appropriate, management of the Company and is not intended and should not be used by anyone other than these specified parties.

Welcome

July 14, 2021

Board of Trustees
Alaska Mental Health Trust Authority

Professional standards require us to communicate with you regarding matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This document provides an overview of our plan for the audit of the financial statements of Alaska Mental Health Trust Authority, the Trust, as of and for the year ended June 30, 2021, including a summary of the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the Trust and look forward to discussing our audit plan, as well as other matters that may be of interest to you.

Respectfully,

BDO USA, LLP

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Executive Summary

Responsibilities

BDO USA, LLP, as your auditor, is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In addition, our audit will be conducted in accordance with standards for financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. The engagement letter, a copy of which has been provided to you, includes specific details regarding the auditor's and management's responsibilities.



Audit Strategy

Overall, our audit strategy is to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design further audit procedures responsive to assessed risks. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. In connection with our audit, we will obtain a sufficient understanding of the Trust's internal control to plan the audit of the financial statements. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control. In addition, Government Auditing Standards require that we also plan and perform the audit to obtain reasonable assurance about whether the Trust has complied with applicable laws, regulations and the terms and conditions of the federal and state awards.

We focus on areas with higher risk of material misstatement (whether due to error or fraud). Our audit strategy includes consideration of:

- ▶ prior year audit results together with current year preliminary analytical review, including discussions with management and those charged with governance regarding the Trust's operations,
- ▶ inherent risk within the Trust,
- ▶ recent developments within the industry, regulatory environment, and general economic conditions,
- ▶ recently issued and effective accounting and financial reporting guidance,
- ▶ the Trust's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions,
- ▶ the control environment and the possibility that the control system and procedures may fail to prevent or detect a material error or fraud,
- ▶ Information about systems and the computer environment in which the related systems operate,
- ▶ a continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the Trust.

Planned Scope

Based upon our initial assessment, our planned scope for the audit is described below:

- ▶ The areas indicated below relate to significant risks identified during our risk assessment procedures and include a brief description of how we propose to address them:
 - Management Override of Controls
 - Revenue Recognition
 - Fraud Risk
 - Other Matters, including Significant Unusual Transactions
- ▶ Overview of the nature of the audit of group financial statements:
 - The audit of the Trust requires financial presentation for all components of the reporting entity. The reporting entity is comprised of the Trust, itself (its funds and accounts) as well as its “component units” as defined by GAAP. This collection of individual reporting entities comprises the “Group”. The Trust audit is considered the “Group Audit”.
 - Included within the reporting entity is the Schedule of Investments Managed by the Alaska Permanent Fund Corporation. The component unit will be audited by a separate accounting firm, KPMG LLP. As part of our planned audit strategy, we will initiate required communications with those audit teams to include confirmation of their independence with respect to the entire group, identification of related parties of those component entities, identification of audit risks, and other required communication.
- ▶ We will plan and perform the audit of the financial statements for the year ended June 30, 2021, in accordance with *Government Auditing Standards* (GAS).



Planned Scope

- ▶ We will consider the Trust's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- ▶ We will perform tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions is not an objective of our audit.



Overall Audit Timeline

The following represents our anticipated schedule with regard to our audit of the financial statements of the Trust:

	Jun	Jul	Aug	Sep	Oct
Planning	✓	✓			
Interim Fieldwork		✓	✓		
Year-End Fieldwork			✓	✓	
Release Reports on Financial Statements					✓

Independence

Our engagement letter to you dated June 3, 2021, describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Trust with respect to independence as agreed to by the Trust. Please refer to that letter for further information.



Client Service Team

As a matter of policy, we attempt to provide continuity of service to our clients to the greatest extent possible. Where engagement team rotation is necessary, we will discuss this matter with you and determine the appropriate individual to be assigned to the engagement based on particular experience, expertise, and engagement needs.

We are pleased to be of service to the Trust and look forward to answering questions you may have regarding our audit plan as well as other matters that may be of interest to you.



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Appendix



Implementation of New GASB Standards

New GASB Standards

In light of the COVID-19 Pandemic, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon the issuance date of May 8, 2020, postponed the effective dates of certain provisions in Statements that were first effective for reporting periods beginning after June 15, 2018. The effective dates of certain provisions contained in the following pronouncements were postponed by one year:

- ▶ Statement No. 83, *Certain Asset Retirement Obligations*
- ▶ Statement No. 84, *Fiduciary Activities*
- ▶ Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- ▶ Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- ▶ Statement No. 90, *Majority Equity Interests*
- ▶ Statement No. 91, *Conduit Debt Obligations*
- ▶ Statement No. 92, *Omnibus 2020*
- ▶ Statement No. 93, *Replacement of Interbank Offered Rates*

The effective date of Statement No. 87, *Leases*, has been postponed by 18 months.

Earlier application of the standards is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 83, *Certain Asset Retirement Obligations*

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Reporting Periods Beginning After 6/15/2018	Reporting Periods Beginning After 6/15/2019

- ▶ Establishes measurement criteria for recording a liability for the retirement or removal of certain assets such as nuclear power plants, sewage treatment facilities, coal-fired power plants, wind turbines, and x-ray machines.
- ▶ Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets would be required to recognize a liability.
- ▶ Must be both an external obligating event, such as a court judgment or federal, state or local law; and an internal obligating event, such as contamination or retirement.
- ▶ A liability and corresponding deferred outflow are recorded when the liability is both incurred and reasonably estimable.
- ▶ The liability is based on the best estimate of the current value of outlays expected to be incurred.
- ▶ Deferred outflows should be amortized over the estimated useful life of the tangible capital asset.
- ▶ Annual remeasurement required, adjusting for effects of inflation or deflation.
- ▶ Exception for minority owner (<50%).

GASB Statement No. 84, *Fiduciary Activities*

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Reporting Periods Beginning After 12/15/2018	Reporting Periods Beginning After 12/15/2019

- ▶ Establishes criteria for reporting fiduciary activities that focuses on whether the government controls the assets and the fiduciary relationship with the beneficiaries.
- ▶ Four fiduciary funds will be used: Pension and OPEB trust funds; Investment trust funds; Private-purpose trust funds; and Custodial funds.
- ▶ Custodial funds replace agency funds for activities that are not held in trust.
- ▶ For activities other than a Pension or OPEB plan for which a trust agreement exists, an investment trust fund or private purpose trust fund will be used.
- ▶ For stand-alone business-type activities, fiduciary activities should be reported in separate fiduciary fund financial statements, unless resources are expected to be held three months or less.

GASB Statement No. 87, *Leases*

Effective Dates	Date per Pronouncement (as amended)	Date as amended per GASB Statement No. 95
	Fiscal Years Beginning After 12/15/2019	Fiscal Years Beginning After 6/15/2021

- ▶ Requires recognition of certain lease assets and liabilities for leases that are currently classified as operating leases.
- ▶ New definition of a lease - a contract that conveys the right to use another entity's nonfinancial asset for a period in an exchange or exchange-like transaction.
- ▶ Eliminates the distinction between operating and capital leases.
- ▶ Excludes short-term leases, leases that transfer ownership and service concession arrangements that are covered by GASB Statement No. 60.
- ▶ Lessees would recognize a lease liability and an intangible right-to-use lease asset which would be amortized in a systematic and reasonable manner over the shorter of the lease term or the useful life of the underlying asset.
- ▶ Lessors would recognize a lease receivable and deferred inflow of resources which would be recognized as revenue in a systematic and rational manner over the term of the lease.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Reporting Periods Beginning After 6/15/2018	Reporting Periods Beginning After 6/15/2019

- ▶ Defines debt for purposes of disclosure as a liability that arises from a contractual obligation to pay cash or other assets in one or more payments to settle an amount that is fixed as of the date the obligation is established.
- ▶ Excludes pension and OPEB liabilities, leases (except for contracts reported as a financed purchase of the underlying assets) and accounts payable as those should be disclosed in separate notes.
- ▶ Includes capital appreciation bonds and variable rate debt.
- ▶ Additional note disclosures required for unused lines of credit, assets pledged as collateral, specific debt agreement terms.
- ▶ Debt disclosures should separate information for direct borrowings and direct placements of debt from other debt.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Reporting Periods Beginning After 12/15/2019	Reporting Periods Beginning After 12/15/2020

- ▶ Upon implementation, in financial statements using the economic resources measurement focus (business-type activities and enterprise funds) interest incurred during construction should be recognized as an expense of the period.
- ▶ Interest costs on construction-in-progress will be capitalized only to the implementation date of this Statement. The provisions of this Statement are to be applied prospectively and will therefore not require a restatement of any balances.
- ▶ In financial statements using the current financial resources measurement focus (governmental funds), interest incurred during construction should be recognized as an expenditure (no change).
- ▶ If a government has regulated operations as defined by paragraph 476 of GASB Statement No. 62, this Statement does not eliminate or remove the requirement to capitalize qualifying interest costs as a regulatory asset.

GASB Statement No. 90, Majority Equity Interests, an Amendment of GASB Statements No. 14 and No. 61

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Reporting Periods Beginning After 12/15/2018	Reporting Periods Beginning After 12/15/2019

- ▶ A majority equity interest in a legally separate organization will be reported as an investment if it meets the definition of an investment.
- ▶ Measured using the equity method, unless held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund or an endowment/permanent fund. These funds would utilize fair value to measure the majority equity interest.
- ▶ For all other majority equity interests in a legally separate organization, report the legally separate organization as component unit and the fund that holds the equity interest should report an asset using the equity method.
- ▶ Acquisition of a component unit in which the government holds 100% interest would be measured using acquisition value.

GASB Statement No. 91, *Conduit Debt Obligations*

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Reporting Periods Beginning After 12/15/2020	Reporting Periods Beginning After 12/15/2021

- ▶ Clearly defines the characteristics of a conduit debt obligation and establishes that a conduit debt obligation is not a liability of the issuer.
- ▶ An issuer should recognize a liability associated with an additional commitment or voluntary commitment to support debt service if certain recognition criteria are met.
- ▶ As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether the recognition criteria are met. An issuer that has only made a limited commitment should evaluate whether those recognition criteria are met when an event occurs that cause the issuer to evaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.
- ▶ Standard addresses accounting for arrangements where capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.
- ▶ Standard enhances note disclosures related to conduit debt.

GASB Statement No. 92, *Omnibus 2020*

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Key Provisions Effective as Noted Below	Except for Provisions Effective upon Statement Issuance, all other Provisions are Delayed One Year

Key Provisions of the Statement are as follows:

► Effective Upon Statement Issuance- February 5, 2020:

- The effective date for interim financial reporting of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, is for fiscal years beginning after December 15, 2019.
- Clarifies that for public entity risk pools, amounts recoverable from reinsurers or excess insurers related to paid claims and claims adjustment expenses may be reported as a reduction of expenses.
- The terms derivative and derivatives should be replaced with derivative instrument and derivative instruments, respectively.

► Effective for Fiscal Years Beginning After June 15, 2020:

- Clarification of the reporting of intra-entity transfers of assets between a government employer or noncontributing entity to a defined benefit pension or other postemployment (OPEB) plan that are within the same reporting entity.

► Effective for Reporting Periods Beginning After June 15, 2020:

- Clarification that a government that reports a fiduciary activity for assets that are accumulated for purposes of providing pension or OPEB through certain defined benefit plans should recognize liabilities in accordance with Statement No. 84.

► Effective for Government Acquisitions Occurring in Reporting Periods Beginning After June 15, 2020:

- In a government acquisition, liabilities and assets related to the acquired entity's asset retirement obligations (AROs) should be measured using the accounting and financial reporting requirements of Statement No. 83, when the AROs fall within the scope of that standard.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Effective as Noted Below	Paragraphs 13 and 14 are Effective for Fiscal Years Beginning After June 15, 2021

► Effective for Reporting Periods Beginning After June 15, 2020:

- Provides exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifies the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifies that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Identifies a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifies the definition of reference rate, as it is used in Statement 53, as amended.
- Provides an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. (paragraphs 13 and 14)

► Effective for Reporting Periods Ending After December 31, 2021:

- Removes LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap (paragraph 11b).

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After June 15, 2022

- ▶ For the Public-Private and Public-Public Partnerships (P3s) that meet the definition of a service concession arrangement (SCA), this Statement carries forward the financial reporting requirements for SCAs that were included in Statement 60, with modifications to apply the more extensive requirements related to recognition and measurement of leases to SCAs.
- ▶ For P3s that meet the definition of a lease, the guidance in Statement No. 87 should be applied, if existing assets of the transferor that are not required to be improved by the operator as part of the P3 arrangement are the only underlying P3 assets and the P3s do not meet the definition of an SCA.
- ▶ This Statement provides specific guidance for all other P3s from the perspective of both a government that transfers rights to another party and governmental operators that receive those rights.
- ▶ The Statement requires governments to account for Availability Payment Arrangement (APAs) in which ownership of the asset transfers by the end of the contract as a financed purchase of the underlying infrastructure or other nonfinancial asset. It also requires a government to report an APA that is related to operating or maintaining a nonfinancial asset as an outflow of resources (for example, expense) in the period to which payments relate

GASB Statement No. 96, *Subscription Based Information Technology Arrangements*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After June 15, 2022

- ▶ Addresses accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. Standard is based on the standards established in Statement No. 87, Leases.
- ▶ Defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.
- ▶ Requires governments with SBITAs to recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability (with an exception for short-term SBITAs—those with a maximum possible term of 12 months).
- ▶ Provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Plans Deferred Compensation Plans

Effective Dates	Date per Pronouncement
	Effective as Noted Below

► Effective Upon Statement Issuance - June 23, 2020:

- Requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically performs.
- Requires that the financial benefit burden criteria in Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension and OPEB plans administered through a trust.

► Effective for Fiscal Years Beginning After June 15, 2021

- Requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan.
- Requires that a Section 457 plan that meets the definition of a pension apply all accounting and financial reporting requirements relevant to pensions.
- Clarifies that Statement 84, as amended, should be applied to all Section 457 plans to determine whether those arrangements should be reported as fiduciary activities.



Industry Resources

Industry Risk and Resources

- ▶ BDO's industry focus is part of who we are and how we serve our clients and has been for over a century. We demonstrate our experience through knowledgeable professionals, relevant client work and participation in the industries we serve.
- ▶ Our industry practices bring perspective on trends, opportunities, issues and regulations that frame our services and approach to address your needs and your industry.

Home > Industries > Public Sector > Overview

Public Sector

BDO leverages an independent viewpoint to help clients navigate complex, government-wide challenges.

Challenging times call for a new perspective.

The public sector is facing many challenges. In addition to political gridlock, the federal deficit has caused many agencies' budgets to shrink over the last several years, meaning that government leaders are under pressure to accomplish more with reduced funding.

BDO's Public Sector Practice serves a wide variety of clients across many levels of government. In addition to our Federal Government clients, we also serve Regional, State, and Local Governments, drawing on deep experience to provide strategic, innovative solutions. Offering a unique depth of capabilities and resources, BDO helps government leaders develop tailored strategies and implement practical solutions that make the most of their limited resources.


KEY CONTACTS

MARK ELLENBOGEN ▶
President/CEO of BDO Public Sector

Accounting, Audit and Other Compliance Considerations for Public Sector Entities Related to COVID-19

The global pandemic is having unprecedented impacts on federal, state, local, tribal and territory governments. Our [COVID-19 resource center](#) helps organizations stay abreast of the latest developments and mitigate risk during this time of uncertainty. For government organizations, the stakes are high as agencies and elected officials work overtime to flatten the curve, save lives and ensure the safety of the American people.

While circumstances are changing daily, our FAQs for the Public Sector answer the most frequently asked questions by government organizations, along with resources to help them respond and plan around each on.



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